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EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

The board of directors (the “**Board**”) of Extrawell Pharmaceutical Holdings Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 March 2016 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations			
Revenue	3	142,201	128,833
Cost of sales		<u>(72,888)</u>	<u>(77,776)</u>
Gross profit		69,313	51,057
Other income	4	67,798	40,542
Other gains and losses, net	5	(33,606)	(71,138)
Selling and distribution expenses		(42,359)	(36,207)
Administrative expenses		(27,368)	(29,315)
Research and development expenses		—	(1,613)
Share of results of an associate		(1,600)	(1,534)
Effective interest expense on convertible bonds		<u>(4,688)</u>	<u>(3,938)</u>
Profit (loss) before taxation	6	27,490	(52,146)
Taxation	7	<u>(90)</u>	<u>(92)</u>
Profit (loss) for the year from continuing operations		<u>27,400</u>	<u>(52,238)</u>

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Discontinued operation			
Profit for the year from discontinued operation	3, 8	<u>—</u>	<u>607,543</u>
Profit for the year		<u>27,400</u>	<u>555,305</u>
Other comprehensive (expense) income <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of foreign operations		<u>(7,880)</u>	<u>4,521</u>
Total comprehensive income for the year		<u>19,520</u>	<u>559,826</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		<u>25,359</u>	568,594
Non-controlling interests		<u>(5,839)</u>	<u>(8,768)</u>
		<u>19,520</u>	<u>559,826</u>
Profit (loss) for the year attributable to owners of the Company:			
— from continuing operations		<u>32,781</u>	(44,188)
— from discontinued operation		<u>—</u>	<u>609,645</u>
		<u>32,781</u>	<u>565,457</u>
(Loss) for the year attributable to non-controlling interests			
— from continuing operations		<u>(5,381)</u>	(8,050)
— from discontinued operation		<u>—</u>	<u>(2,102)</u>
		<u>(5,381)</u>	<u>(10,152)</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings (loss) per share	9		
From continuing and discontinued operations			
— Basic		<u>1.37</u>	<u>23.66</u>
— Diluted		<u>1.14</u>	<u>23.66</u>
From continuing operations			
— Basic		<u>1.37</u>	<u>(1.85)</u>
— Diluted		<u>1.14</u>	<u>(1.85)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2016

	<i>Notes</i>	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS			
Investment properties		1,556	1,615
Property, plant and equipment		161,911	175,930
Prepaid lease payments		10,155	10,879
Intangible assets		1,807	1,807
Investments in convertible bonds		362,960	349,220
Available-for-sale investments		—	—
Interest in an associate		333,866	335,466
Amount due from an associate		13,199	10,108
		885,454	885,025
CURRENT ASSETS			
Inventories		5,924	17,050
Trade receivables	<i>11</i>	57,019	57,568
Deposits, prepayments and other receivables		8,393	6,802
Available-for-sale investments		3,012	—
Pledged bank deposits		20,053	19,971
Bank balances and cash		180,998	152,227
		275,399	253,618
CURRENT LIABILITIES			
Trade and bill payables	<i>12</i>	11,093	12,676
Accruals and other payables		68,614	66,134
Amount due to an associate		19,780	19,780
Tax payable		15,695	18,590
		115,182	117,180
NET CURRENT ASSETS		160,217	136,438
TOTAL ASSETS LESS CURRENT LIABILITIES		1,045,671	1,021,463

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		102	102
Convertible bonds		<u>29,670</u>	<u>24,982</u>
		<u>29,772</u>	<u>25,084</u>
NET ASSETS		<u>1,015,899</u>	<u>996,379</u>
CAPITAL AND RESERVES			
Share Capital		23,900	23,900
Reserves		<u>993,349</u>	<u>967,990</u>
Equity attributable to owners of the Company		1,017,249	991,890
Non-controlling interests		<u>(1,350)</u>	<u>4,489</u>
TOTAL EQUITY		<u>1,015,899</u>	<u>996,379</u>

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Suites 2206-08, 22/F, Devon House, Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong.

The Company is an investment holding company. The principal activities of the Company’s subsidiaries and an associate are set out in annual report.

The functional currency of the Company is Hong Kong dollar (“HK\$”), which is the same as the presentation currency of the consolidated financial statements.

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. These consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair value.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) New and amended standards adopted by the Group

The Group has adopted the following amendments to standards effective 1 January 2015 for the first time for the Group’s financial year beginning on or after 1 April 2015:

- Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.
- Amendments from annual improvements to HKFRSs-2010–2012 Cycle, on HKFRS 8 “Operating segments”, HKAS 16 “Property, plant and equipment”, HKAS 38 “Intangible assets” and HKAS 24 “Related party disclosures”.
- Amendments from annual improvements to HKFRSs-2011–2013 Cycle, on HKFRS 3 “Business combination”, HKFRS 13 “Fair value measurement” and HKAS 40 “Investment property”.

The adoption of the above amendments to HKFRSs has had no material impact on the Group’s financial performance and positions.

(b) New standards and interpretations not yet adopted

The following new standards and amendments to standards have been issued and are effective for accounting periods beginning on or after 1 January 2016, and have not been applied in preparing these consolidated financial statements:

- Amendments to HKAS 1 “Disclosure Initiative”¹
- Amendment to HKAS 16 and HKAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”¹
- Amendments to a number of HKFRSs “Annual Improvements 2012–2014 Cycle”¹
- Amendments to HKAS 27 “Equity Method in Separate Financial Statements”¹
- HKFRS 15 “Revenue from contracts with customers”²
- HKFRS 9 “Financial instruments”²
- HKFRS 16 “Leases”³

¹ Effective for accounting periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for accounting periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for accounting periods beginning on or after 1 January 2019, with earlier application permitted.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group.

3. REVENUE AND SEGMENT INFORMATION

Revenue for the year represents the fair value of amounts received and receivable for goods sold to outside customers, less discounts and sales-related taxes for the year, and is analysed as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Manufacturing of pharmaceutical products	42,893	37,288
Trading of pharmaceutical products	99,308	91,545
	<u>142,201</u>	<u>128,833</u>

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group’s operating segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summarised details of the reportable and operating segments are as follows:

- (a) the manufacturing segment engages in the development, manufacture and sales of pharmaceutical products;
- (b) the trading segment engages in the marketing and distribution of imported pharmaceutical products; and
- (c) the gene development segment engages in the commercial exploitation and development of genome-related technology.

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

An operating segment regarding oral insulin development and commercialisation was discontinued in the year ended 31 March 2015 upon the disposal of Smart Ascent Limited (“Smart Ascent”) and its subsidiaries (“Smart Ascent Group”). The segment information reported below does not include any amounts for the discontinued operation, which are described in more details in note 8.

Segment revenues and results

The following is an analysis of the Group’s revenue and results from continuing operations by reportable and operating segment.

Continuing operations

	Manufacturing		Trading		Gene development		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Revenue								
Sales to external customers	<u>42,893</u>	<u>37,288</u>	<u>99,308</u>	<u>91,545</u>	<u>—</u>	<u>—</u>	<u>142,201</u>	<u>128,833</u>
Segment results	<u>(20,218)</u>	<u>(33,182)</u>	<u>16,829</u>	<u>12,682</u>	<u>(81)</u>	<u>(81)</u>	<u>(3,470)</u>	<u>(20,581)</u>
Unallocated other income							67,798	40,542
Unallocated other gains and losses, net							(23,953)	(58,218)
Corporate expenses							(6,597)	(8,417)
Effective interest expense on convertible bonds							(4,688)	(3,938)
Share of results of an associate							<u>(1,600)</u>	<u>(1,534)</u>
Profit (loss) before taxation							27,490	(52,146)
Taxation							<u>(90)</u>	<u>(92)</u>
Profit (loss) for the year							<u>27,400</u>	<u>(52,238)</u>

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of interest income, effective interest income from investments in convertible bonds, other gains and losses, net, corporate expenses, share of results of an associate and effective interest expense on convertible bonds. This is the measure reported to the chief operating decision makers, being the executive and non-executive directors of the Company, for the purposes of resource allocation and performance assessment.

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment.

	Manufacturing		Trading		Gene development		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Segment assets</i>								
Continuing operations								
Segment assets	212,943	237,204	128,759	105,192	6	6	341,708	342,402
Investments in convertible bonds							362,960	349,220
Interest in an associate							333,866	335,466
Corporate and other assets							122,319	111,555
							<u>1,160,853</u>	<u>1,138,643</u>
Total assets							<u>1,160,853</u>	<u>1,138,643</u>
<i>Segment liabilities</i>								
Continuing operations								
Segment liabilities	83,260	75,620	11,845	15,134	64	64	95,169	90,818
Convertible bonds							29,670	24,982
Corporate and other liabilities							20,115	26,464
							<u>144,954</u>	<u>142,264</u>
Total liabilities							<u>144,954</u>	<u>142,264</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than investments in convertible bonds, interest in an associate and corporate and other assets; and
- all liabilities are allocated to operating segments other than convertible bonds and corporate and other liabilities.

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Other segment information

Continuing operations

	Manufacturing		Trading		Gene development		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts included in the measure of segment profit or loss:								
Depreciation and amortisation	6,323	5,822	103	104	—	—	6,426	5,926
Allowance for bad and doubtful debts, net	9,004	12,920	—	—	—	—	9,004	12,920
Impairment on other receivables	717	—	—	—	—	—	717	—
Gain on disposal of property, plant and equipment, net	(71)	—	3	—	—	—	(68)	—

4. OTHER INCOME

	2016	2015
	HK\$'000	HK\$'000
Continuing operations		
Interest income	831	1,012
Rental income	228	222
Sundry income	930	416
Effective interest income from investments in convertible bonds	62,718	37,245
Imputed interest income from amount due from an associate	3,091	1,647
	<u>67,798</u>	<u>40,542</u>

5. OTHER GAINS AND LOSSES, NET

	2016	2015
	HK\$'000	HK\$'000
Continuing operations		
Gain on disposal of property, plant and equipment, net	68	—
Change in fair value of derivative component of investments in convertible bonds	(23,953)	(58,218)
Allowance for bad and doubtful debts, net	(9,004)	(12,920)
Impairment on other receivables	(717)	—
	<u>(33,606)</u>	<u>(71,138)</u>

6. PROFIT (LOSS) BEFORE TAXATION

The Group's profit (loss) before taxation from continuing operations has been arrived at after charging:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Amortisation of prepaid lease payments	243	249
Depreciation of investment properties	59	59
Depreciation of property, plant and equipment	6,235	5,970
Auditors' remuneration	728	768
Cost of inventories recognised as expenses	72,888	77,776
Including: Allowance for inventories (<i>Note</i>)	713	1,149
Operating lease charges in respect of land and buildings	1,925	1,859
Staff cost (including directors' emoluments)		
Salaries, bonus and allowances	19,428	21,189
Retirement benefits scheme contributions	3,203	2,941

Note: Allowance for inventories is reversed when the relevant inventory is utilised/sold.

7. TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations		
Current tax:		
Hong Kong	70	69
Other jurisdictions	50	50
	<u>120</u>	<u>119</u>
(Over) provision in prior years		
Hong Kong	(20)	(20)
Other jurisdictions	(10)	(7)
	<u>(30)</u>	<u>(27)</u>
Income tax charge	<u>90</u>	<u>92</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DISCONTINUED OPERATION

On 28 July 2014, the Group completed its disposal of 51% equity interest of its wholly owned subsidiary Smart Ascent, the holding company of the Group's oral insulin operation. As the Group lost control in Smart Ascent Group, the operation was classified as discontinued operation for the year ended 31 March 2015. Total profit from the discontinued operation amounted to HK\$607,543,000, which was attributable to the gain on disposal of the Group's 51% interest in Smart Ascent of HK\$611,867,000 and operating loss of HK\$4,324,000 for the period from 1 April 2014 to the date of completion of disposal.

9. EARNINGS (LOSS) PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings

	2016 HK\$'000	2015 HK\$'000
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	32,781	565,457
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds (<i>Note</i>)	<u>4,688</u>	<u>—</u>
Earnings for the purpose of diluted earnings per share	<u><u>37,469</u></u>	<u><u>565,457</u></u>

Number of shares

	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,390,000,000	2,390,000,000
Effect of dilutive potential ordinary shares:		
Convertible bonds (<i>Note</i>)	<u>900,000,000</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>3,290,000,000</u></u>	<u><u>2,390,000,000</u></u>

Note: The computation of diluted earnings per share for the year ended 31 March 2015 does not assume the conversion of the Company's outstanding convertible bonds as their assumed conversion would decrease the loss per share from continuing operations for the year then ended.

9. EARNINGS (LOSS) PER SHARE (CONTINUED)

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to owners of the Company is based on the following data:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Earnings (loss) figures are calculated as follows:		
Profit for the year attributable to owners of the Company from continuing and discontinued operations	32,781	565,457
Less: profit for the year from discontinued operation attributable to owners of the Company	<u>—</u>	<u>(609,645)</u>
Earnings (loss) for the purpose of basic earnings (loss) per share from continuing operations	32,781	(44,188)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	<u>4,688</u>	<u>—</u>
Earnings (loss) for the purpose of diluted earnings (loss) per share	<u><u>37,469</u></u>	<u><u>(44,188)</u></u>

The denominators used are the same as those detailed above for basic and diluted earnings per share from continuing and discontinued operations.

From discontinued operation

Basic and diluted earnings per share for the discontinued operation for the year ended 31 March 2015 was HK\$25.51 cents per share, based on the earnings for that year from discontinued operation of profit of HK\$609,645,000 and the denominators detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

10. DIVIDENDS

The directors do not recommend the payment of dividend for the year ended 31 March 2016 (2015: nil).

11. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally ranging from 120 to 180 days, extending up to one year for some major customers.

The following is an aged analysis of trade receivables, net of allowance for bad and doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–90 days	19,467	21,183
91–180 days	26,658	19,332
181–365 days	10,894	17,023
Over 365 days	<u>—</u>	<u>30</u>
	<u>57,019</u>	<u>57,568</u>

12. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–90 days	8,725	9,680
91–180 days	1,363	2,459
181–365 days	156	495
1–2 years	325	42
Over 2 years	<u>524</u>	<u>—</u>
	<u>11,093</u>	<u>12,676</u>

EXTRACTED FROM INDEPENDENT AUDITORS' REPORT

The auditors expressed an unqualified opinion in the auditors' report, but including an emphasis of matter paragraph and other matter paragraph. Details of which are extracted and reproduced as follows:

“Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matter

As explained in note 23 to the consolidated financial statements, the carrying amount of interest in an associate, representing interest in Smart Ascent Limited and its subsidiaries (the “**Smart Ascent Group**”), is HK\$333,866,000 as at 31 March 2016. The major asset held by the Smart Ascent Group is the intangible asset in relation to an in-process research and development project (the “**In-process R&D**”) involving an oral insulin product (the “**Product**”). The carrying amount of interest in an associate is highly dependent upon further research and development work required to be carried out, results of the clinical trials, the successful launching of the Product and key assumptions to be applied in preparing cash flow projection from the Product. Should the outcome of the clinical trials and the launching of the Product be unsuccessful, or the key assumptions applied in preparing the cash flow projection from the Product turn out to be unrealised, material adjustments may be required and consequently have an adverse effect on the net assets and the results of the Group.

Other Matter

The consolidated financial statements of the Company for the year ended 31 March 2015 were audited by another auditor who expressed an unqualified opinion on those statements on 29 June 2015 with an emphasis of matter paragraph in relation to the uncertainty of the successful launching of the Product which may materially affect the carrying amount of the In-process R&D.”

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Performance Review

2015 was another difficult year for the global economy with overall growth rate falling from 3.4% in 2014 to 3.1%, and China also recorded its slowest economic growth at 6.9% in a quarter century. Despite the slowdown, the China's pharmaceutical industry continued to show positive trends of development as driven by growing market demands and deepened healthcare reform policies. The Group recognised the opportunities and challenges brought along by these changes, and in the year under review, its core business segments recorded an increase in revenue and improved performance under the escalating competition after the heightened drug bidding policies and rising operating costs on more stringent environmental protection supervision to manufacturing sector.

Continuing operations

In the year under review, revenue and gross profit were about HK\$142.2 million (2015: HK\$128.8 million) and HK\$69.3 million (2015: HK\$51.1 million) respectively, representing an increase of about 10.4% and 35.8% as compared with that of last financial year. This was achieved through increase in sales volume and gross margin of both manufacturing and trading segments.

Operating profit before taxation was about HK\$27.5 million (2015: loss HK\$52.1 million), representing an improvement of about HK\$79.6 million. This was mainly resulted from the increase in gross profit of about HK\$18.3 million and effective interest income from investments in convertible bonds of about HK\$25.5 million, and decrease in loss of fair value changes on investments in convertible bonds of about HK\$34.3 million and allowance for bad and doubtful debts, net of about HK\$3.9 million.

Discontinued operation

In last year, the Group recorded a profit of about HK\$607.5 million from the discontinued operation resulting from the one-off gain on disposal of its 51% equity interest in Smart Ascent Limited ("Smart Ascent"), the holding company of the Group's oral insulin operation, whereas, no such profit was recorded during the year.

The Group's profit for the year attributable to owners of the Company was about HK\$32.8 million, representing a significant decrease of about HK\$532.7 million when compared to profit of about HK\$565.5 million of last financial year. Such decrease was primarily attributable to, among other things, the one-off gain on disposal of the Group's 51% equity interest in Smart Ascent, effective interest income and fair value changes in the Group's investments in convertible bonds as mentioned above.

Revenue and Operating Results

Imported Pharmaceutical Sector

Benefiting from the established high quality networks with medical professionals and institutions, and the favorable currency impact on cost of sales resulting from depreciation of the Euro against the Group's reporting currency Hong Kong dollar, the segment reported improved performance in terms of revenue and segment profit in the year under review. Revenue increased to about HK\$99.3 million (2015: HK\$91.5 million), representing an increase of HK\$7.8 million or 8.5%, which was primarily due to sales mix, and segment results rose to about HK\$16.8 million (2015: HK\$12.7 million), representing an increase of HK\$4.1 million or 32.7%.

In light of challenging environment of intensifying competition from the local manufacturers in China, management has been deploying resources to explore potential products at competitive price to meet the ever-changing market landscape in China and would continue to seek collaboration in product development with international pharmaceutical corporations.

Manufactured Pharmaceutical Sector

The Group's decision to consolidate manufacturing facilities in Changchun is a critical step to ensure operating efficiency to maintain competitiveness in a challenging environment. In the year under review, the segment continued to keep picking up pace upon obtaining GMP certification to all its product lines last year and reported a rise in revenue and improved segment results. Notwithstanding the closure of JECP's plants, revenue increased by about HK\$5.6 million or 15.0% to HK\$42.9 million (2015: HK\$37.3 million) which increased the gross margin by about 7% when compared to last year.

Segment results recorded loss of about HK\$20.2 million (2015: HK\$33.2 million), a reduction in loss by about HK\$13.0 million. Such improvement shows that the intense efforts of management last year to rectify the situation by adjusting its marketing strategy and implementing stringent cost controls were paying off. Along with the increase in sales contribution of about HK\$4.8 million, the reduction in allowance for bad and doubtful debts, net of about HK\$3.9 million and sales-related expenses of about HK\$4.3 million also contributed to the positive impact on the segment results.

Management has remained cautious about the challenging business environment and has been continuously taking firmly focused on reducing operating expenses, enhancing productivity and products quality for sustainable growth, and striving for delivering better results.

Gene Development Sector

During the year, gene development remained inactive and no revenue was recorded.

Other income and gains and losses, net

Other income and gains and losses, net were in total a gain of about HK\$34.2 million (2015: loss HK\$30.6 million), which was primarily attributable to effective interest income of HK\$62.7 million (2015: HK\$37.2 million), loss on change in fair value of derivative component from investments in convertible bonds of HK\$24.0 million (2015: HK\$58.2 million) and allowance for bad and doubtful debts, net of about HK\$9.0 million (2015: HK\$12.9 million).

Selling and Distribution Expenses

Selling and distribution expenses of the Group increased to about HK\$42.4 million (2015: HK\$36.2 million), representing an increase of HK\$6.2 million or 17.0%. The increase was primarily due to increase in sales of products from trading and manufacturing segments.

Administrative Expenses

Total administrative expenses were about HK\$27.4 million (2015: HK\$29.3 million), representing an increase of about HK\$1.9 million or 6.6%. However, when excluding those one-time expenses as included in the relevant periods, the adjusted administrative expenses were maintained at similar level of about HK\$26.5 million (2015: HK\$26.1 million). The one-time expenses included in the year under review related to closure costs of about HK\$0.9 million for JECF's manufacturing operation and those included in the corresponding year comprised of miscellaneous start-up expenses of about HK\$1.5 million for the new GMP plants in Changchun, amortisation and depreciation charges of about HK\$0.9 million classified as administrative expenses prior to its obtaining GMP certification and stamp duty of about HK\$0.8 million paid for disposal of the Group's 51% interest in Smart Ascent.

Outlook

Although the next five years under the China's 13th Five-Year Plan (2016–2020) will exhibit a slower economic growth in the country, the pharmaceutical market will continue to transform and grow under the healthcare reforms which now stands halfway in the central government's plan to provide quality and affordable healthcare services to its entire population by 2020.

Alongside the opportunities under the reforms, pharmaceutical corporations are faced with escalating market competitions and pricing pressures by the lifting of price caps on drug bidding, rising operating costs to comply with regulatory requirements and narrowing quality gap between home-grown brands and imported products.

Against this backdrop, the Group is cautious about 2016. Leveraging on the advanced facilities of the Group's GMP factory in Changchun, the Group will continue to focus on enhancing its core competitiveness through lean operations and exploring new sales channels to increase revenue and market share. Meanwhile, in response to the challenges ahead, the Group will step up its efforts in product research and development and exploit new products through collaborative relations with international enterprises to sustain long-term development and growth of the Group.

In light of the central government's growth stabilising measures amid the faltering global economy, the Group believes that the pharmaceutical industry in China will be prosperous in the long run with sustainable growth under the support of state policies, and the Group will continue to adopt a steady development strategy to preserve financial flexibility and seek potential business development opportunities for its future development and growth.

Financial Review

Liquidity and Financial Resources

It is the Group's strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 31 March 2016, the Group had total cash and bank balances (including pledged bank deposits) of about HK\$201.1 million (2015: HK\$172.2 million), representing an increase by approximately 16.8%.

The Group did not have bank borrowings during the year but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK\$20.1 million (2015: HK\$20.0 million) and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group's total borrowing over total assets ratio as at 31 March 2016 was 0.043 (2015: 0.039), calculated based on the Group's total assets of about HK\$1,160.9 million (2015: HK\$1,138.6 million) and total debts of about HK\$49.5 million (2015: HK\$44.8 million), comprising convertible bonds of about HK\$29.7 million (2015: HK\$25.0 million) and amount due to an associate of HK\$19.8 million (2015: HK\$19.8 million).

Foreign Exchange Exposure

Save for certain purchases are denominated in Euros, the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group manages the foreign currency exposure by closely monitoring the foreign currency movements and may purchase foreign currencies at spot rate, when and where appropriate for meeting its payment obligation. No hedge on foreign currencies was made during the year but the Group will use financial instruments for hedging purpose when considered appropriate.

Employment and Remuneration Policy

As at 31 March 2016, the Group had 220 employees (2015: 290). Staff costs (including directors' emoluments) for the year ended 31 March 2016 amounted to approximately HK\$22.6 million (2015: approximately HK\$24.1 million), which was mainly due to consolidation of manufacturing plants in Changchun, the PRC.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities.

On 24 August 2012, shareholders of the Company had approved the adoption of a share option scheme (the “Scheme”), which became effective on 29 August 2012 after obtaining approval from the Listing Committee of the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

From the effective date of the Scheme to 31 March 2016, no share option has been granted under the Scheme.

Corporate Governance

The Group recognises the importance of achieving and monitoring the high standard of corporate governance consistent with the need and requirements of its business and the best interest of all of its shareholders. The Group is fully committed to doing so.

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (“Code Provisions”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). During the year ended 31 March 2016, the Company had adopted and applied the Code Provisions, except for certain deviations as set out below.

Code Provisions A.1.3 and A.7.1 stipulate that 14-day notice should be given for each regular board meeting and that in respect of regular meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or other agreed period). The Company agrees that sufficient time should be given to the directors in order to make a proper decision. In these respects, the Company adopts a more flexible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same person. Dr. Xie Yi has served as the Chairman and Chief Executive Officer of the Company. However, the Company believes that there is adequate balance of power and authority in place though vesting the roles of both chairman and chief executive officer in the same person as all major decisions of the Company are made in consultation with members of the Board.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this Code Provision as the independent non-executive directors (“INEDs”) are not appointed for specific terms. According to the bye-laws of the Company, however, the INEDs are subject to retirement and re-election. The reason for the deviation is that the Company believes that the directors ought to be committed to representing the long-term interest of the Company’s shareholders.

Code Provision A.4.2 stipulates that every director should be subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the directors shall retire from office by rotation provided that the Chairman, Deputy Chairman or Managing Director shall not be subject to retirement by rotation. The Company’s bye-laws deviate from the Code Provision. The Company considers that the continuity of the Chairman/Deputy Chairman/Managing Director and their leadership are essential for the stability of the business and key management. The rotation methodology ensures a reasonable continuity of directorship which is to the best interest of the Company’s shareholders.

Code Provision A.4.2 also stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to the bye-laws of the Company, any director so appointed shall hold office only until the next annual general meeting. The Company’s bye-laws deviate from the Code Provision. However, the Company believes that it is in the best interest of the Company’s shareholders to transact this ordinary course of business in the annual general meeting.

Code Provision A.6.7 stipulates that INEDs and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Two of the INEDs, Mr. Fang Lin Hu and Ms. Jin Song could not attend the annual general meeting of the Company held on 28 August 2015 due to other business commitments.

The Company will continue to review and monitor the situation as stated above, and to improve the practices as and when the circumstances demand.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the directors, the directors have complied with the required standard set out in the Model Code throughout the year ended 31 March 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year.

AUDIT COMMITTEE

The Company has established an Audit Committee (the “Committee”), with written terms of reference, in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises three INEDs. The Group’s financial statements for the year ended 31 March 2016 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and Stock Exchange’s and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The results announcement is published on the Stock Exchange’s website (www.hkexnews.hk) and the Company’s website (www.extrawell.com.hk). The annual report will be despatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Chairman

Hong Kong, 29 June 2016

List of Directors as at the date of this announcement:

Executive Directors:

Dr. XIE Yi
Dr. LOU Yi
Mr. CHENG Yong
Ms. WONG Sau Kuen
Mr. LIU Kwok Wah

Independent Non-executive Directors and Audit Committee:

Mr. FANG Lin Hu
Mr. XUE Jing Lun
Ms. JIN Song

* *For identification purpose only*